

DW 05-063

HAMPSTEAD AREA WATER COMPANY, INC.

Petition for Order to Expand Franchise, Acquire Assets, Incur Debt and Charge Rates

Order Authorizing Recovery of Rate Case Expenses

O R D E R N O. 24,580

January 20, 2006

I. BACKGROUND

On November 18, 2005, by Order No. 24,544, the New Hampshire Public Utilities Commission (Commission) approved a Stipulation and permanent rates for the Mill Woods water system which is located in the Town of Sandown, New Hampshire. The water system is owned and operated by Hampstead Area Water Company, Inc. (HAWC). The Commission ordered HAWC to submit within 30 days a total of its rate case expenses incurred in DW 05-063, a proposed recovery period, and an estimate of a proposed surcharge for Mill Woods.

On December 19, 2005, HAWC filed with the Commission Staff (Staff) a letter and supporting documentation requesting recovery of its rate case expenses in the amount of \$3,837.50. HAWC also proposed recovery of this amount from the projected 38 customers of the Mill Woods system over four billing quarters commencing on or about January 2006, through a surcharge of \$25.25 per customer per quarter. The Mill Woods system is currently serving a total of eight customers.

On January 3, 2006, Staff forwarded HAWC's letter to the Commission as well as a letter containing its recommendations regarding HAWC's filing. Staff recommended that the total amount of rate case expenses proposed by HAWC be reduced by \$564.60 to an amount of

\$3,272.90. Staff stated the proposed adjustment was related to a charge for the preparation of the Mill Woods Continuing Property Records (CPRs). Staff averred that it was inappropriate to include this charge in the rate case expense surcharge because the preparation and maintenance of CPRs is a recordkeeping task that is part of the on-going operations of the utility. Staff also recommended that the recovery period be extended to two years, or eight billing quarters. Under this scenario, HAWC would collect \$86.13 of the adjusted rate case expenses from each of the 38 anticipated customers of the Mill Woods system via a \$10.76 surcharge per customer per quarter. Staff stated the \$10.76 surcharge was more comparable to other small water company rate case expense surcharges recently approved by the Commission and would not be onerous to the Mill Woods customers.

II. COMMISSION ANALYSIS

Pursuant to RSA 365:38-a, the Commission may allow recovery of costs associated with utility proceedings before the Commission, provided that recovery of costs for utilities and other parties shall be just and reasonable and in the public interest. The Commission has long considered that prudently incurred rate case expenses and other legal and regulatory expenses are legitimate costs of service of a utility that should be included in rates. Additionally, the Commission's review of a utility's request to recover the expenses of litigating a rate case requires the balancing of the utility's right to and opportunity to collect its legitimate costs with the Commission's responsibility to ensure the reasonableness of the expenses and that the utility is sufficiently motivated to control such expenses. "If unreasonably incurred, if undue in amount, if chargeable to other accounts, they may to that extent be reduced." *State v. Hampton Water Works*, 91 NH 278, 296 (1941).

HAWC requests recovery of \$3,837.50 in rate case expenses and Staff recommends the Commission reject \$564.60, stating this amount was for preparation of CPRs that ordinarily should have been kept in the normal course of business. We agree with Staff's recommendation to remove the costs associated with the preparation of CPRs. According to N.H. Code Admin. R. Puc 607.07 each water utility is required to maintain its accounts and records in conformity with the Uniform Classification of Accounts for Water Utilities. Section 610.01(e)(20) of the Uniform Classification of Accounts for Water Utilities requires water utilities to maintain CPRs of operating property used in utility operations. For this reason, we deny HAWC's request to recovery \$564.60 as a rate case surcharge. To allow recovery of this amount as a surcharge would, in effect, allow HAWC double recovery since HAWC's rates already include normal business expenses associated with complying with accounting requirements.

We next address the surcharge recovery time period. HAWC requests to recover rate case expenses over four billing quarters in the amount of \$25.25 per customer, while Staff asserts that this amount is higher than has been usually approved in comparable circumstances. We find Staff's proposal to spread the recovery over eight billing quarters in the amount of \$10.76 per customer to be less onerous on customers and reasonable for HAWC considering the total amount to recovered.

Accordingly, we approve recovery of HAWC's rate case expenses in this docket in the amount of \$3,272.90. We find recovery of the rate expense surcharge of \$10.76 per customer over a period of eight billing quarters to be just and reasonable and in the public interest.

Based upon the foregoing, it is hereby

ORDERED, that Hampstead Area Water Company, Inc. is authorized to recover a total of \$3,272.90 in rate case expenses with a maximum amount to be recovered from each of the current or future customers of the Mill Woods system of \$86.13 via a quarterly surcharge of \$10.76 over eight billing quarters commencing on or about January 2006, and collected until such time that the total authorized amount of rate case expenses is recovered; and it is

FURTHER ORDERED, that Hampstead Area Water Company, Inc. shall file a compliance tariff within five business days of the date of this order.

By order of the Public Utilities Commission of New Hampshire this twentieth day of January, 2006.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary